

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Saginaw County Community Mental Health Authority	County Saginaw
Audit Date September 30, 2005	Opinion Date February 3, 2006	Date Accountant Report Submitted to State: March 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

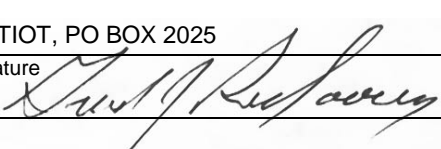
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

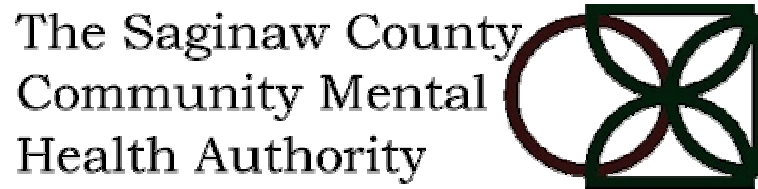
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			



Saginaw, Michigan

## Financial Statements

For the Year Ended September 30, 2005

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## TABLE OF CONTENTS

---

	<u>PAGE</u>
<b>Independent Auditors' Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-10
<b>Financial Statements for the Year Ended September 30, 2005</b>	
Government-wide / Fund Financial Statements:	
Statement of Net Assets	11
Statement of Activities and Proprietary Fund Revenues, Expenses and Changes in Fund Net Assets	12
Statement of Cash Flows – Proprietary Funds	13
Notes to Financial Statements	14-28
<b>Combining and Individual Fund Financial Statements and Schedules</b>	
Enterprise Fund	
Detail Schedule of Revenues	29
Detail Schedule of Program Expenses:	
Children with Severe Emotional Disturbance Programs	30
Adults with Serious Mental Illness Programs	31
Persons with Developmental Disabilities Programs	32
Other Populations	33
Unallocated Costs	34-35
Internal Service Funds	
Combining Statement of Net Assets	36
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	37
Combining Statement of Cash Flows	38
<b>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</b>	39-40



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

## INDEPENDENT AUDITORS' REPORT

February 3, 2006

Members of the Board  
Saginaw County Community  
Mental Health Authority  
Saginaw, Michigan

We have audited the accompanying financial statements of the business-type activities, the major fund and the aggregate remaining fund information of the ***Saginaw County Community Mental Health Authority***, as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the major fund and the aggregate remaining fund information of the Authority, as of September 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2006, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

5800 Gratiot ■ Suite 201 ■ P.O. Box 2025 ■ Saginaw, MI 48605 ■ 989.799.9580 ■ Fax 989.799.0227 ■ [www.rehmann.com](http://www.rehmann.com)



The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *Saginaw County Community Mental Health Authority's* basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **Saginaw County Community Mental Health Authority's Management's Discussion and Analysis (MD&A) Fiscal Year Ended September 30, 2005**

A Management's Discussion and Analysis (MD&A) is an easily readable analysis of the financial activities based on known facts, decisions, and conditions. It provides information in a fair and objective manner, with the goal of assisting users in assessing whether the financial position has improved or deteriorated as a result of the year's operations.

The following financial data is the management's discussion and analysis of the three financial reports that have been audited by the external audit team, The Rehmann Group, who were contracted by the Board of Directors of SCCMHA to complete an independent review and express an opinion with regard to the fair presentation of the financial statements prepared by the staff at SCCMHA.

The following three financial statements have been prepared to report the current financial position and activity of Saginaw County Community Mental Health Authority (SCCMHA) for fiscal year 2004/2005.

### **Statement of Net Assets**

This statement reports combined assets and liabilities and fund net assets for the enterprise fund as well as the internal service funds. It shows the current financial position as well as the breakdown of total net assets for restricted or unrestricted purposes.

### **Statement of Activities and Proprietary Fund Revenues, Expenses, and Changes in Fund Net Assets**

This statement is used to disclose how both operating and non-operating revenues and expenses are generated within the enterprise fund and internal service funds, as well as how operating expenses are split between service populations. This report totals the expenses against revenues that have been generated for determination of the change in net assets, which is also shown as total net assets on the Statement of Net Assets.

### **Statement of Cash Flows**

The total cash and cash equivalents at year end is calculated by determining the change in cash flow totals during the year. This report shows summarized changes in cash flow, which reconciles to the net increase (decrease) in cash and cash equivalents and is then added to cash and cash equivalents at the beginning of the year. The total of cash and cash equivalents at the end of the year is reported in the assets section of the Statement of Net Assets.

The following summarized financial statements have been prepared to help facilitate this discussion and analysis, and also to assist the reader in understanding the data that explains the financial position.

### Statement of Net Assets

	<u>9/30/2005</u>	<u>9/30/2004</u>	<u>Increase (Decrease)</u>
Assets			
Current assets	\$14,375,625	\$ 13,475,669	\$ 899,956
Long term investments (*Note)	6,124,596	5,401,406	723,190
Capital assets, net of accum. depr.	<u>2,445,469</u>	<u>2,417,297</u>	<u>28,172</u>
Total assets	<u>22,945,690</u>	<u>21,294,372</u>	<u>1,651,318</u>
Liabilities			
Current liabilities	10,811,127	9,836,366	974,761
Long term liabilities	<u>918,092</u>	<u>976,649</u>	<u>( 58,557)</u>
Total liabilities	<u>11,729,219</u>	<u>10,813,015</u>	<u>916,204</u>
Net assets			
Investments in capital assets, net of related debit	1,422,374	1,715,707	( 293,333)
Restricted	8,278,410	7,335,361	943,049
Unrestricted	<u>1,515,687</u>	<u>1,430,289</u>	<u>85,398</u>
Total net assets	<u>\$ 11,216,471</u>	<u>\$ 10,481,357</u>	<u>\$ 735,114</u>

\*Note – The classification of long term investments represents the various investments that have been separately classified to cover the post employment health insurance plan.

Summarized in this manner, the reader is able to see the comparison of FY04 and FY05 totals which have resulted in an increase of assets by \$1,651,318 and an increase of liabilities by the amount of \$916,204. Both of these totals and the increase in total net assets in the amount of \$735,114 will be discussed in detail on the following two pages.

## ASSETS

The following breakdown of assets helps to identify where the changes occurred within the various classifications of assets between FY04 and FY05.

**Bold** items represent the current position for each classification of asset.

	Two Year Comparison
Increase ( <b>decrease</b> ) in cash	\$ ( 3,245,561)
<b>Increase</b> (decrease) in receivables	166,160
<b>Increase</b> (decrease) in due from MDCH	2,048,167
<b>Increase</b> (decrease) in short term investments	1,869,978
<b>Increase</b> (decrease) in long term investments	723,190
<b>Increase</b> (decrease) in net capital assets	28,171
<b>Increase</b> (decrease) in all other assets	61,213
Total <b>increase</b> (decrease) in assets	<u>\$ 1,651,318</u>

In summary, the main reason for this increase in assets is as a result of the receivable due from MDCH.

## LIABILITIES

The following breakdown of liabilities helps to identify where the changes occurred within the various classifications of liabilities between FY04 and FY05.

**Bold** items represent the current position for each classification of liability.

	Two Year Comparison
<b>Increase</b> (decrease) in accounts payables	\$ 1,367,399
Increase ( <b>decrease</b> ) in due to State of Michigan	( 481,844)
Increase ( <b>decrease</b> ) in long term debt	( 78,972)
<b>Increase</b> (decrease) in deferred revenue ABW	543,675
Increase ( <b>decrease</b> ) in deferred revenue Medicaid	( 538,738)
<b>Increase</b> (decrease) in all other liabilities	104,684
Total <b>increase</b> (decrease) in liabilities	<u>\$ 916,204</u>

In summary, the increase to accounts payable resulted from the increased liabilities. The deferred ABW and Medicaid revenues will be carried over and will be available for funding in FY06.



## TOTAL NET ASSETS

Our analysis of total net assets includes identification of the classification of assets as either restricted or unrestricted as set forth by the Governmental Accounting Standards Board No. 34 (GASB34).

**Bold** items represent the current position for each classification within net assets.

The increase in total net assets, as shown below, is a result of an increase in restricted assets and a decrease in investments in capital, net of debt and unrestricted assets, as follows:

The change in total net assets between FY 2004 and  
FY 2005, is reported as follows:

	<u>Two Year Comparison</u>
Total increase ( <b>decrease</b> ) in investments in Capital assets, net of related debt	\$ ( 293,333)
Total <b>increase</b> (decrease) in restricted assets	943,049
Total <b>increase</b> (decrease) in unrestricted assets	<u>85,398</u>
<b>Increase</b> (decrease) in total net assets	<u>\$ 735,114</u>
 Change in investment in capital assets, net of related debt	
Capital assets, beginning of year	\$ 1,715,707
Capital assets, end of year	<u>1,422,374</u>
Increase ( <b>decrease</b> ) in capital assets net of related debt	<u>\$ ( 293,333)</u>
 Change in restricted assets from FY 2004 to FY 2005:	
Restricted for earmarked contributions <b>decrease</b>	\$ ( 14,506)
Restricted for post-employment benefits <b>increase</b>	1,147,284
Restricted for risk of managed care <b>decrease</b>	<u>( 189,729)</u>
<b>Increase</b> (decrease) in total restricted assets	<u>\$ 943,049</u>
 Change in unrestricted assets from FY 2004 to FY 2005:	
Unrestricted funds, beginning of year	\$ 1,430,289
Unrestricted funds, ending of year	<u>1,515,687</u>
<b>Increase</b> (decrease) in unrestricted funds	<u>\$ 85,398</u>

In summary, the gradual shifting of total net assets to more restricted funds continued from FY04 into FY05. As a result, flexibility in the use of these funds is lost.

**Statement of Activities and Proprietary Fund Revenues, Expenses  
And Changes in Fund Net Assets**

	<u>9/30/2005</u>	<u>9/30/2004</u>	Increase (Decrease)
Operating revenue			
Medicaid revenue	\$ 33,271,343	\$ 28,780,472	\$ 4,490,871
State general fund	8,824,195	7,769,164	1,055,031
ABW revenue	250,143	410,971	( 160,828)
MI Child revenue	24,789	27,842	( 3,053)
Local revenue	1,637,065	1,360,776	276,289
Grant and Categorical revenue	<u>645,822</u>	<u>566,061</u>	<u>79,761</u>
 Total operating revenue	<u>44,653,357</u>	<u>38,915,286</u>	<u>\$ 5,738,071</u>
(Medicaid Revenues include Medicaid Savings and Children's Waiver, also Local revenue includes Medicaid FFS and Public Act 423 insurance.)			
Operating expenses			
Program expenses			
Children with SED	3,001,195	2,335,479	665,716
Adults with SMI	22,769,661	17,349,897	5,419,764
Persons with DD	17,010,718	17,096,039	( 85,321)
Other programs	1,054,784	1,717,624	( 662,840)
Unallocated costs	38,742	23,987	14,755
Non-program	<u>851,965</u>	<u>509,649</u>	<u>342,316</u>
Total operating expenses	<u>44,727,065</u>	<u>39,032,675</u>	<u>\$ 5,694,390</u>
 Operating income (loss)	( 73,708)	(117,389)	\$ 43,681
 Non-operating revenues (expenses)	<u>808,822</u>	<u>486,904</u>	<u>321,918</u>
Change in net assets	735,114	369,515	365,599
 Net assets, beginning of year	<u>10,481,357</u>	<u>10,111,842</u>	<u>369,515</u>
Net assets, end of year	<u>\$ 11,216,471</u>	<u>\$10,481,357</u>	<u>\$ 735,114</u>

Operating revenues increased from FY04 levels by \$5,738,071 and operating expenses increased in FY05 by \$6,694,390, which resulted in the total change in operating income of \$43,681 between fiscal years 2004 and 2005.

Due to the increase of non-operating revenues for fiscal year 2005, in the amount of \$321,918, the change in net assets totals \$735,114 for the year.

Some of the changes within net assets, that created significant limitations affecting the availability of fund resources, are as follow:

### Statement of Cash Flows

	<u>9/30/2005</u>	<u>9/30/2004</u>
Cash flows from operating activities provided from operations	\$ (1,342,704)	\$ 3,818,297
Cash flows from capital and Non –related financing operations	129,002	
Cash flows from capital and related financing operations	( 553,077)	( 687,386)
Cash flows from investing operations	<u>( 1,478,782)</u>	<u>( 1,045,024)</u>
Net increase (decrease) in cash and cash equivalents	( 3,245,561)	2,085,887
Cash and cash equivalents – beginning of year	<u>5,561,557</u>	<u>3,475,670</u>
Cash and cash equivalents – end of year	<u>\$ 2,315,996</u>	<u>\$ 5,561,557</u>

The decrease in cash and cash equivalents, end of year, is a result of the increased cost of operating activities during FY05.

### Capital Assets

In order to identify some of the changes in capital assets, net of accumulated depreciation, and the effects of these changes on total net assets, the following discussion was prepared to accumulate significant events that occurred in FY 2005:

### Purchase of Geddes Road Home

In February, 2005, the Authority finalized the purchase of the Geddes Road Home, as detailed below. The purchase of this home is considered to be a positive way to stabilize living conditions for consumers while at the same time control costs within this residential setting.

The purchase price and interest rate of this home is listed below:

PROPERTY	AMOUNT	RATE	LOAN MATURITY	AMORTIZATION PERIOD
Geddes Road Home	\$ 190,000	3.4623%	33 Months	15 Years

### Forecast

Following is a description of current known facts, decisions, or conditions that are expected to have a significant affect on the future financial position or operations.

#### Equipment – Computer

Additional development, implementation and training will occur in 2006, to allow for increased functionality for all staff in the use of new clinical and financial software. Increased regulatory demands under the Balanced Budget Act for compliance with HIPAA Privacy and Security and Uniformed Billing require increased diligence on the part of every member of the staff, which require tools that are not only easy to use, but are also secure, dependable, and accurate.

#### Capitated Funding

As a result of the Michigan Department of Community Health's actuarial rebasing activities in FY2005, it is anticipated that SCCMHA will receive a significant reduction in Medicaid funding in FY06. Preliminary calculations show that over \$5,000,000 in Medicaid funding could be removed from the funding authorization for both fiscal year's 2005 and 2006.

As a result of Saginaw receiving this approximately 16% reduction in Medicaid funding for FY06, DCH has agreed to increase from 97 to 120 the total number of Habilitation Supports Waivers currently authorized to Saginaw, effective 10/1/05. This increase would replace approximately \$1,272,000 of the Medicaid funding reduction caused by rebasing activities. It is anticipated that early in fiscal year 2006, MDCH will complete a statewide reallocation of general funds which should further alleviate some of the funding deficits which would result from the projected authorization levels.

## **CONTACTING THE AUTHORITY MANAGEMENT**

This financial report is designed to provide a general overview of the Saginaw County Community Mental Health Authority's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Director of Finance, Saginaw County Community Mental Health Authority, 500 Hancock, Saginaw, Michigan 48602.

## **FINANCIAL STATEMENTS**

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**STATEMENT OF NET ASSETS**

**SEPTEMBER 30, 2005**

Assets	Enterprise Operating Fund	Internal Service Funds	Adjustments	Total Business-type Activities
Current assets:				
Cash and cash equivalents	\$ 457,824	\$ 1,858,172	\$ -	\$ 2,315,996
Investments	8,358,311	6,124,596	-	14,482,907
Receivables:				
Clients and insurance companies (net of allowance for doubtful accounts and settlement adjustments of \$197,044)	560,991	-	-	560,991
Due from Michigan Department of Community Health	2,957,133	-	-	2,957,133
Internal receivables	365,173	645,376	(1,010,549)	-
Inventory	12,033	-	-	12,033
Prepaid expenses	171,161	-	-	171,161
Total current assets	12,882,626	8,628,144	(1,010,549)	20,500,221
Noncurrent assets:				
Capital assets, net:				
Assets not being depreciated	363,000	-	-	363,000
Assets being depreciated	2,082,469	-	-	2,082,469
Total noncurrent assets	2,445,469	-	-	2,445,469
Total assets	15,328,095	8,628,144	(1,010,549)	22,945,690
Liabilities				
Current liabilities:				
Accounts payable	6,250,804	-	-	6,250,804
Due to Michigan Department of Community Health	935,211	-	-	935,211
Accrued liabilities	7,132	-	-	7,132
Internal payables	645,376	365,173	(1,010,549)	-
Estimated claims payable	816,365	-	-	816,365
Accrued payroll and benefits	231,438	-	-	231,438
Notes payable - current	105,003	-	-	105,003
Compensated absences - current	317,134	-	-	317,134
Unearned revenue - Adult benefit waiver	1,366,146	-	-	1,366,146
Unearned revenue - Medicaid	781,894	-	-	781,894
Total current liabilities	11,456,503	365,173	(1,010,549)	10,811,127
Noncurrent liabilities:				
Notes payable	918,092	-	-	918,092
Total liabilities	12,374,595	365,173	(1,010,549)	11,729,219
Net assets				
Invested in capital assets, net of related debt	1,422,374	-	-	1,422,374
Restricted for earmarked contributions	15,439	-	-	15,439
Restricted for retirement costs	-	157,072	-	157,072
Restricted for postemployment benefits	-	6,612,900	-	6,612,900
Restricted for risk of managed care	-	1,492,999	-	1,492,999
Unrestricted	1,515,687	-	-	1,515,687
Total net assets	\$ 2,953,500	\$ 8,262,971	\$ -	\$11,216,471

The accompanying notes are an integral part of these financial statements.

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**STATEMENT OF ACTIVITIES AND**  
**PROPRIETARY FUND REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Enterprise Operating Fund	Internal Service Funds	Adjustments	Total Business-type Activities
<b>Operating revenues</b>				
Capitated Revenues	\$ 41,931,136	\$ -	\$ -	\$ 41,931,136
Fee for service	831,336	-	-	831,336
Local revenue	1,245,063	-	-	1,245,063
Contributions	-	973,005	(973,005)	-
Grant and categorical revenue	645,822	-	-	645,822
<b>Total operating revenues</b>	44,653,357	973,005	(973,005)	44,653,357
<b>Operating expenses</b>				
Program expenses				
Children with Severe Emotional Disturbance Programs	3,052,667	-	(51,472)	3,001,195
Adults with Serious Mental Illness Programs	23,160,172	-	(390,511)	22,769,661
Developmental Disabilities Programs	17,302,460	-	(291,742)	17,010,718
Other populations	1,072,171	-	(17,387)	1,054,784
Unallocated costs	38,742	-	-	38,742
Non-program expenses				
P.A. 530 local funds transfer	509,649	-	-	509,649
Provider tax	342,316	-	-	342,316
Postemployment health insurance	-	221,893	(221,893)	-
<b>Total operating expenses</b>	45,478,177	221,893	(973,005)	44,727,065
<b>Operating income (loss)</b>	(824,820)	751,112	-	(73,708)
<b>Nonoperating revenues (expenses)</b>				
Transfers in	365,173	125,537	(490,710)	-
Transfers out	(125,537)	(365,173)	490,710	-
Substance abuse	129,002	-	-	129,002
Rent	92,554	-	-	92,554
Interest revenue	266,576	319,138	-	585,714
Interest expense	(29,258)	-	-	(29,258)
Net appreciation in fair value of investments	-	126,941	-	126,941
Bay Connection maintenance expense	(96,131)	-	-	(96,131)
<b>Total nonoperating revenues (expenses)</b>	602,379	206,443	-	808,822
<b>Change in net assets</b>	(222,441)	957,555	-	735,114
Net assets, beginning of year	3,175,941	7,305,416	-	10,481,357
<b>Net assets, end of year</b>	<u>\$ 2,953,500</u>	<u>\$ 8,262,971</u>	<u>\$ -</u>	<u>\$ 11,216,471</u>

The accompanying notes are an integral part of these financial statements



**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Enterprise Fund	Internal Service Funds
Cash flows from operating activities:		
Cash received from customers and others	\$ 42,432,163	\$ -
Cash received from other funds	-	548,911
Cash payments to other funds	(548,911)	
Cash payments to employees	(16,535,175)	-
Cash payments to suppliers for goods and services	(27,017,799)	(221,893)
Net cash provided (used) by operating activities	(1,669,722)	327,018
Cash flows from non-capital financing activities:		
Cash received from other funds	-	125,537
Cash received from Substance abuse	129,002	-
Cash payments to other funds	(125,537)	-
Net cash provided (used) by non-capital financing activities	3,465	125,537
Cash flows from capital and related financing activities:		
Proceeds from notes	190,000	-
Principal paid on notes	(97,617)	-
Interest paid on notes	(29,258)	-
Purchase of capital assets	(616,202)	-
Net cash used by capital and related financing activities	(553,077)	-
Cash flows from investing activities:		
Interest received	266,576	319,138
Rent received	92,554	-
Payments for Bay Connection maintenance	(96,131)	-
Purchases of investments	(1,464,670)	(596,249)
Net cash used by investing activities	(1,201,671)	(277,111)
Net increase (decrease) in cash and cash equivalents	(3,421,005)	175,444
Cash and cash equivalents, beginning of year	3,878,829	1,682,728
Cash and cash equivalents, end of year	<u>\$ 457,824</u>	<u>\$ 1,858,172</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (824,820)	\$ 751,112
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	562,402	-
(Increase) decrease in assets:		
Accounts receivable	(166,160)	-
Due from State of Michigan	(2,048,167)	-
Due from other funds	(365,173)	(424,094)
Inventory	606	-
Prepaid expenses	(61,819)	-
Increase (decrease) in liabilities:		
Accounts payable	885,555	-
Accrued liabilities	283	-
Estimated claims payable	374,769	-
Accrued payroll and benefits	(358,262)	-
Due to other funds	424,094	-
Accrued compensated absences	42,076	-
Deposits	(125,537)	-
Unearned revenue	(9,569)	-
Net cash provided (used) by operating activities	<u>\$ (1,669,722)</u>	<u>\$ 327,018</u>

The accompanying notes are an integral part of these financial statements

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for Saginaw County Community Mental Health Authority, (the “Authority”) established under Public Act 267 of 1976, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

#### A. Reporting Entity

As indicated above, the Authority is a Community Mental Health Authority serving the mental health and developmental disability needs of Saginaw County residents. Its Board of Directors is appointed by the County Commissioners of Saginaw County.

#### B. Government-wide and Fund Financial Statements

As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and the Statement of Activities and Proprietary Fund Revenues, Expenses and Changes in Fund Net Assets. The Authority’s only major fund is reported in a separate column in the aforementioned financial statements.

The operations of the Authority are accounted for as an Enterprise Fund (a proprietary fund) which is designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

The enterprise fund is the Authority's primary operating fund, and only major fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

The internal service funds are used to account for and finance potential uninsured risks of loss related to various funding received through the Michigan Department of Community Health (MDCH), as well as for accounting for and financing postemployment health benefits and other selected retirement costs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund and of the government's internal service funds are charges to customers for services. Operating expenses for the enterprise fund and internal service funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **D. Assets, Liabilities and Equity**

#### ***1. Deposits and Investments***

Cash and cash equivalents consist of deposits in checking accounts, other demand accounts and amounts deposited in a pooled liquid asset account.

#### ***Statutory Authority***

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

# **SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

---

- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the investments company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Authority's investment policy allows for all of these types of investments.

### **2. *Accounts Receivable***

Accounts receivable are shown net of an allowance for uncollectibles. Consumer accounts receivable and revenue are recorded when services are performed. A substantial portion of the Authority's receivables from services to consumers is received under contractual arrangements with Medicaid, Medicare and other commercial insurance programs, whereby the Authority is paid based on allowable costs incurred. The preliminary settlement of amounts due to the Authority is subject to redetermination upon audit by the applicable agency. An estimated provision is made for possible adjustments that may result from such reviews and any differences between the amounts accrued and amounts settled are recorded in operations in the period of settlement. Fee accounts receivable are shown net of an allowance for uncollectibles, which is based on management's estimate using collection history trends.

### **3. *Inventory***

Inventories are valued at cost. The costs of inventories are recorded as expenses when consumed rather than when purchased.

### **4. *Prepayments***

Payments made to vendors for services that will benefit periods beyond September 30, 2005, are recorded as "prepaid expenses" in the accompanying statement of net assets.

### **5. *Capital Assets***

# **SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

---

Capital assets, which include property, plant and equipment are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

<u><b>Assets</b></u>	<u><b>Years</b></u>
Building and improvements	20-50
Equipment	3-10
Machinery	5-12
Vehicles	3-10

### ***6. Contract with Michigan Department of Community Health***

The Authority has several account balances that relate to the Authority's contract with the Michigan Department of Community Health (DCH). The amount reported as "Due from Michigan Department of Community Health" reflects a receivable from the various grantor agencies for services provided under the contract for the year ended September 30, 2005 and amounts owed back to the Authority from the State as the result of the year end cost settlement. "Due to Michigan Department of Community Health" largely reflects amounts due to the State for clients of the Authority placed in state institutions.

### ***7. Compensated Absences***

Accumulated compensated absences (i.e., paid time off) are reported as expenses and liabilities of the Authority when incurred.

### ***8. Unearned Revenue***

Unearned revenue represents that portion of the current year Medicaid and Adult Benefit Waiver (ABW) contract amounts that may be expended in the subsequent fiscal year.

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### II. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown in the basic financial statements to the Authority's deposits and investments is as follows:

	<b><u>Carrying Amount</u></b>
Government-Wide Financial Statement Captions:	
Primary Government:	
Cash and cash equivalents	\$ 2,315,996
Investments	<u>14,482,907</u>
Total	<u>\$ 16,798,903</u>
Notes to financial statements	
Deposits	\$ 6,928,723
Investments	<u>9,870,180</u>
Total	<u>\$ 16,798,903</u>

#### Deposits and investments

The Authority chooses to disclose its investments by specifically identifying each. As of year end, the Authority had the following investments.

Investment	Maturity In years	Fair Value	Ratings
Vanguard IT Bond Index Fund Investor Shares	7.5	\$ 970,735	Lehman AA2/AA3
Vanguard Short-Term Treasury Fund Admiral Shares	2.7	192,021	Lehman AAA/AAA
Vanguard IT Treasury Fund Admiral Shares	7.9	785,875	Lehman AAA/AAA
Vanguard Long-Term Bond Index Fund	20.2	1,224,769	Lehman AA2/AA3
American Century Investments	N/A	940,759	Morningstar ★★ ★
Schwab 1000 Index Fund	N/A	940,340	Morningstar ★★ ★★
Schwab Money Market	N/A	53,042	N/A
Vanguard Index 500 Portfolio	N/A	1,017,055	N/A
Daimler Chrysler North Commercial Paper	N/A	993,790	Moody P2, S&P A2
Institutional Money Market Fund	N/A	<u>2,751,794</u>	Moody Aaa, S&P AAAM
		<u>\$9,870,180</u>	

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

### **B. Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note D.1. of the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note D.1. of the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment credit. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end \$5,396,825 of the Authority's bank balance of \$5,769,344 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority's will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. Of the investments listed above, there is no custodial credit risk as these investments are uncategorized as to credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in Note D.1. of the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the Authority's investments are in Vanguard IT Bond Index Fund Investor Shares, Vanguard IT Treasury Fund Admiral Shares, Vanguard Long Term Bond Index Fund, American Century Investments, Schwab 1000 Index Fund, Vanguard Index 500 Portfolio Daimler Chrysler North commercial paper and Institutional Money Market Fund. All investments held at year end are reported above.

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### C. Capital Assets

Capital assets activity for the year ended September 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activity</b>				
Capital assets not being depreciated:				
Land	\$ 318,000	\$ 45,000	\$ -	\$ 363,000
Work in progress	<u>162,000</u>	<u>212,245</u>	<u>(374,245)</u>	<u>-</u>
Total capital assets not being depreciated:	<u>480,000</u>	<u>257,245</u>	<u>(374,245)</u>	<u>363,000</u>
Capital assets being depreciated:				
Buildings and improvements	6,477,551	145,000	-	6,622,551
Furniture and fixtures	608,515	83,152	-	691,667
Vehicles	460,620	92,116	-	552,736
Equipment	<u>715,148</u>	<u>412,934</u>	<u>-</u>	<u>1,128,082</u>
Total capital assets being depreciated	<u>8,261,834</u>	<u>733,202</u>	<u>-</u>	<u>8,995,036</u>
Less accumulated depreciation:				
Buildings and improvements	5,244,471	271,095	-	5,515,566
Furniture and fixtures	441,452	40,614	-	482,066
Vehicles	331,688	45,044	-	376,732
Equipment	<u>306,925</u>	<u>231,278</u>	<u>-</u>	<u>538,203</u>
Total accumulated depreciation	<u>6,324,536</u>	<u>588,031</u>	<u>-</u>	<u>6,912,567</u>
Total capital assets being depreciated, net	<u>1,937,298</u>	<u>145,171</u>	<u>-</u>	<u>2,082,469</u>
Business-type activity capital assets, net	<u>\$ 2,417,298</u>	<u>\$ 402,416</u>	<u>\$ (374,245)</u>	<u>\$ 2,445,469</u>



# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### D. Long-Term Debt

The Authority's long-term debt as of September 30, 2005 is summarized as follows:

	<u>Balance October 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance September 30, 2005</u>	<u>Due Within One Year</u>
Bay Connections Property Installment Contract - The installment purchase agreement dated May 15, 1998 has monthly payments which bear interest at 3.4%. The full faith and credit of the Authority along with the property itself has been pledged for principal and interest.	\$ 455,252	\$ -	\$ (64,135)	\$ 391,117	\$ 66,082
Gera Road Note Payable – The note dated December 20, 2002 has 60 monthly payments which bear interest at 3.42%. The full faith and credit of the Authority along with the property itself has been pledged for principal and interest.	145,336	-	(8,796)	136,540	9,107
Riverfront Road Note Payable – The note dated April 1, 2003 has 57 monthly payments which bear interest at 3.13%. The full faith and credit of the Authority along with the property itself has been pledged for principal and interest.	142,461	-	(8,608)	133,853	8,885
Rambo Group Home Note Payable – The note dated December 1, 2003 has 48 monthly payments which bear interest at 3.236%. The full faith and credit of the Authority along with the property itself has been pledged for principle and interest.	187,663	-	(10,542)	177,121	10,888

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Balance October 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance September 30, 2005</u>	<u>Due Within One Year</u>
Geddes Group Home Note Payable – The note dated February 10, 2005 has 33 monthly payments which bear interest at 3.46% with a final principal payment of \$162,262 due on December 20, 2007	\$ -	\$ 190,000	\$ (5,536)	\$ 184,464	\$ 10,041
Total notes payable	930,712	190,000	(97,617)	1,023,095	105,003
Accrued compensated absences	<u>275,058</u>	<u>585,913</u>	<u>(543,837)</u>	<u>317,134</u>	<u>317,134</u>
<b>TOTAL LONG TERM DEBT</b>	<u>\$1,205,770</u>	<u>\$ 775,913</u>	<u>\$(641,454)</u>	<u>\$ 1,340,229</u>	<u>\$ 422,137</u>

The annual requirements to pay future principal and interest on the installment contract and notes payable debt are as follows:

<u>Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 105,003	\$ 33,035
2007	108,646	29,392
2008	623,608	12,389
2009	73,304	5,300
2010	75,883	2,721
2011	<u>36,651</u>	<u>366</u>
	<u>\$1,023,095</u>	<u>\$ 83,203</u>

## II. OTHER INFORMATION

### A. Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (worker's compensation), as well as medical benefits provided to employees and retirees. During the year ended September 30, 2005, the Authority carried commercial insurance to cover all risk of losses other than those for medical benefits provided to employees and retirees. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three years. The Authority is self-funded for health insurance subject to stop loss insurance limits so that the maximum amount of loss is fixed at a predetermined amount. This amount is provided in the Authority's annual budget.

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

The self-insurance program for health insurance is accounted for in the Enterprise Fund. An independent administrator (Blue Cross) is hired to process the daily claims. The Authority is responsible for individual claims up to \$25,000 per participant or \$6,962 times the number of participants in the aggregate. Blue Cross is responsible for paying the claims above this amount. There were no reductions of insurance coverage from the prior year. The Authority is also responsible for paying administrative charges and stop loss insurance premiums. The liability at the end of the year is based on claims already incurred and reported as provided by Blue Cross and on estimates of incurred but not reported claims as estimated by management which cannot exceed the stop loss insurance limits. Settled claims have not exceeded insurance coverage in any of the past three years.

The changes in the claims liability for the years ended September 30, 2004 and 2005 are as follows:

<u>Fiscal Year</u>	<u>Beginning of Period Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>End of Period Liability</u>
2004	\$ 306,749	\$1,371,577	\$ 1,236,730	\$ 441,596
2005	441,596	1,576,686	1,201,917	816,365

### **B. Defined Benefit Pension Plan**

#### Plan Description

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

### Funding Policy

The Authority is required to contribute at an actuarially determined rate; the current rate of annual covered payroll is 13.20% for mental health workers, 38.11% for supervisors, 32.96% for non-union management, 10.93% for general non-union, and 0.00% for senior administrators. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Authority, depending on the MERS contribution program adopted by the Authority.

### Annual Pension Cost

For the year ended September 30, 2005, the Authority's annual pension cost of \$288,811 for MERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the Authority's December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

<b>Trend Information</b>			
<b>Fiscal Year <u>Ending</u></b>	<b>Annual Pension <u>Cost (APC)</u></b>	<b>Percentage of APC <u>Contributed</u></b>	<b>Net Pension <u>Obligation</u></b>
9/30/03	\$235,557	100%	\$0
9/30/04	255,002	100%	0
9/30/05	288,811	100%	0

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/02	\$9,779,411	\$12,592,418	\$2,813,007	78%	\$1,995,040	141%
12/31/03	10,135,800	13,151,730	3,015,930	77%	1,743,312	173%
12/31/04	10,430,359	13,352,165	2,921,806	78%	1,521,774	192%

#### **C. Defined Contribution Pension Plan**

The Saginaw County Community Mental Health Authority Defined Contribution Pension Plan was established by the Authority to provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is administered by a third party on behalf of the participants and their beneficiaries. At September 30, 2005, there were 170 plan members. Plan members may contribute either 0% or 3% of covered salary. The Authority is required to contribute either 6% or 9% of annual covered payroll, depending on the percentage being contributed by the employee. Plan provisions and contributions requirements are established and may be amended by the Authority Board. In accordance with the Plan contribution requirements, \$172,649 in employee contributions and \$535,880 in employer contributions were made for the year ended September 30, 2005.

#### **D. Postemployment Health Benefits**

The Authority provides a postemployment group hospitalization plan provided proper application is made prior to retirement and the employee is a member of the plan on the date of retirement and the employee agrees to participate in a co-pay program. The co-payment is based on the employee's number of years of service. Retirees and dependents, age 65 and older, shall be converted to Medicare complimentary coverage. The Authority is advance-funding these postemployment health benefits on an actuarially determined basis and the current required contribution rate is up to 12.90% of covered payroll based upon the pessimistic assumption. There are no required contributions for employees at the present time. The benefit provisions and obligations to contribute are established by the Board of the Authority.

For the year ended September 30, 2005, the Authority contributed \$973,005 to the plan, representing approximately 9% of covered payroll. The contribution was determined as part of the Authority's June 30, 2003, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected long-term rate of unit premium increase of

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

25% per year initially, decreasing in future years to 4.5% per year, compounded annually, (c) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (d) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to promotion/longevity. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2003, the date of the latest actuarial valuation, was 30 years.

An analysis of the total postemployment health benefit obligation applicable to the Authority's employees as of June 30, 2003, (the latest date for which actuarial information is available) using the optimistic and pessimistic assumptions as outlined in the actuarial report is as follows:

	<u>Optimistic Assumption</u>	<u>Pessimistic Assumption</u>
Health benefit actuarially accrued liability for retirees and current employees	\$ 7,396,829	\$ 13,729,966
Net assets available for benefits, at fair value	<u>3,885,200</u>	<u>3,885,200</u>
Unfunded actuarial accrued liability	<u>\$ 3,511,629</u>	<u>\$ 9,844,766</u>

Currently, the Authority has 32 participants receiving benefits under the Plan. This is a result of the County of Saginaw covering all participants that had retired at the time the Authority separated from the County.

### **E. Adjustments**

The adjustments presented on the Statement of Net Assets and Proprietary Fund Revenues, Expenses and Changes in Net Assets are required to eliminate interfund balances and activity between the Enterprise Fund, the Postemployment Benefits and Managed Care Risk Reserve Internal Service Funds, for presentation of the government-wide financial statements.

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### F. Managed Care Reserve Fund

Net assets in the Managed Care Reserve Internal Service Fund are restricted for future shortfalls between revenue and expenses.

Following is a schedule of changes in net assets of the Managed Care Risk Reserve Internal Service Fund:

Beginning balance	\$ 1,682,728
Additions	175,444
Deletions	<u>(365,173)</u>
Ending balance	<u>\$ 1,492,999</u>

### G. Operating Leases

The Authority has entered into a lease agreement with a private company to operate a pharmacy within the Authority's building. The total rent revenue received from this agreement by the Authority for the fiscal year ended September 30, 2005 was \$24,000. The future rental payments to be received by the Authority are as follows:

2006	<u>\$ 24,000</u>
------	------------------

### H. Interfund Receivables, Payables and Transfers

Due To	Due From		
	Operating Fund	Internal Service Fund	Total
Operating Fund	\$ -	\$ 365,173	\$ 365,173
Internal Service Fund	645,376	-	645,376
Total	<u>\$ 645,376</u>	<u>\$ 365,173</u>	<u>\$ 1,010,549</u>

The balance of \$365,173 due to the Operating Fund from the Internal Service Fund is the Operating Fund's portion that can be transferred from the Managed Care Risk Reserve Internal Service Fund to cover the current year shortfall between expenses and revenues in the Operating Fund.

The balance of \$645,376 due to the Internal Service Fund from the Operating Fund is the current year managed care risk reserve allowable amount that can be transferred from the Operating Fund to the Internal Service Fund.

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

---

<b>Transfers From</b>	<b>Transfers To</b>		
	Operating Fund	Internal Service Fund	Total
Operating Fund	\$ -	\$ 125,537	\$ 125,537
Internal Service Fund	365,173	-	365,173
Total	<u>\$ 365,173</u>	<u>\$ 125,537</u>	<u>\$ 490,710</u>

Transfers from the Operating fund to the Internal Service Fund were in recognition of substance abuse revenue receipted into the Operating Fund which should have been recognized in the Internal Service Fund.

Transfers from the Internal Service Fund to the Operating Fund were to cover the current year shortfall between expenses and revenues in the Operating Fund.

\* \* \* \* \*



**COMBINING AND INDIVIDUAL  
FUND FINANCIAL STATEMENTS**

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**DETAIL SCHEDULE OF REVENUES - ENTERPRISE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**Capitated Revenues**

Medicaid and Medicaid savings	\$ 32,832,009
General fund	8,824,195
Adult Benefit Waiver	250,143
MI Child	24,789
	<hr/>
	41,931,136
	<hr/>

**Fee for Service Revenues**

Medicaid FFS	138,232
Childrens Waiver	439,334
Public Act 423 insurance	253,770
	<hr/>
	831,336
	<hr/>

**Local**

County match	1,050,303
Other local	194,760
	<hr/>
	1,245,063
	<hr/>

**Grant and Categorical revenue**

Tobacco tax	15,833
Multicultural services	48,250
Grants	581,739
	<hr/>
	645,822
	<hr/>

**Nonoperating revenues**

Rental - Bay Connection Commercial	92,554
Interest revenue	266,576
	<hr/>
	359,130
	<hr/>

<b>Total revenue</b>	<b>\$ 45,012,487</b>
	<hr/> <hr/>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND  
 CHILDREN WITH SEVERE EMOTIONAL DISTURBANCE PROGRAMS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Hospitalization</u>	<u>Clinical Services</u>	<u>Case Management</u>
<b>Operating expenses:</b>			
Salaries and wages	\$ -	\$ 42,302	\$ 717,751
Allocated employee benefits	-	16,890	419,921
Supplies	<u>-</u>	<u>-</u>	<u>11,027</u>
Sub total	<u>-</u>	<u>59,192</u>	<u>1,148,699</u>
Services and charges:			
Contracted services	824,484	164,416	67,114
Allocated costs	31,533	17,067	625,044
Insurance	-	53	8,925
Utilities	-	-	1,694
Repairs and maintenance	-	13	2,772
Clinical services	-	-	10,496
Other	<u>-</u>	<u>-</u>	<u>49,145</u>
Total services and charges	856,017	181,549	765,190
Depreciation	<u>-</u>	<u>1,062</u>	<u>1,390</u>
<b>TOTALS</b>	<u><u>\$ 856,017</u></u>	<u><u>\$ 241,803</u></u>	<u><u>\$ 1,915,279</u></u>

Residential Services	Prevention Services	Totals
\$ -	\$ 200	\$ 760,253
-	-	436,811
-	-	11,027
-	200	1,208,091
21,070	13,440	1,090,524
847	1,905	676,396
-	-	8,978
-	-	1,694
-	13	2,798
-	-	10,496
-	1,937	51,082
21,917	17,295	1,841,968
-	156	2,608
<u>\$ 21,917</u>	<u>\$ 17,651</u>	<u>\$ 3,052,667</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND  
ADULTS WITH SERIOUS MENTAL ILLNESS PROGRAMS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Hospitalization</u>	<u>Emergency Services</u>	<u>Clinical Services</u>	<u>Case Management</u>	<u>Clubhouse House Services</u>
<b>Operating expenses:</b>					
Personal services	\$ -	\$ 627,867	\$ 327,951	\$ 955,660	\$ -
Allocated employee benefits	-	355,220	161,693	569,338	-
Supplies	-	6,369	1,939	9,777	-
Sub total	-	989,456	491,583	1,534,775	-
Services and charges:					
Contracted services	7,543,707	563,392	896,495	680,396	38,392
Allocated costs	245,158	375,497	228,733	824,872	29,269
Insurance	-	6,222	5,565	23,878	-
Utilities	-	5,182	412	479	-
Repairs and maintenance	-	27,386	300	4,070	-
Clinical services	-	9,089	-	11,420	-
Other	-	9,099	111,096	61,844	-
Total services and charges	7,788,865	995,867	1,242,601	1,606,959	67,661
Depreciation	-	2,906	500	2,906	4,699
<b>TOTALS</b>	<u>\$ 7,788,865</u>	<u>\$ 1,988,229</u>	<u>\$ 1,734,684</u>	<u>\$ 3,144,640</u>	<u>\$ 72,360</u>

Residential Services	Employment Skill Building	Prevention Services	Totals
\$ -	\$ -	\$ 257,475	\$ 2,168,953
-	-	105,915	1,192,166
-	-	5,378	23,463
-	-	368,768	3,384,582
7,194,033	298,351	7,758	17,222,524
328,930	6,074	209,685	2,248,218
-	-	3,820	39,485
-	-	-	6,073
-	-	439	32,195
-	-	-	20,509
-	-	11,398	193,437
7,522,963	304,425	233,100	19,762,441
-	-	2,138	13,149
<u>\$ 7,522,963</u>	<u>\$ 304,425</u>	<u>\$ 604,006</u>	<u>\$ 23,160,172</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND  
 PERSONS WITH DEVELOPMENTAL DISABILITIES PROGRAMS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Hospitalization</u>	<u>Emergency Services</u>	<u>Clinical Services</u>	<u>Case Management</u>
<b>Operating expenses:</b>				
Personal services	\$ -	\$ 1,169,467	\$ 279,977	\$ 781,282
Allocated employee benefits	-	648,957	172,055	438,339
Supplies	-	43,163	1,955	707
Sub total	-	1,861,587	453,987	1,220,328
Services and charges:				
Contracted services	879,094	484,678	708,315	590,425
Allocated costs	-	1,182,822	276,584	573,422
Insurance	-	34,195	3,849	9,263
Utilities	-	3,602	-	-
Repairs and maintenance	-	21,888	5,812	-
Rents	-	38,600	-	-
Clinical services	-	955	-	2,673
Other	-	590,009	15,148	30,616
Total services and charges	879,094	2,356,749	1,009,708	1,206,399
Depreciation	-	4,343	-	-
Total operating expenses	879,094	4,222,679	1,463,695	2,426,727
<b>Nonoperating expenses:</b>				
Interest expense	-	-	-	-
<b>TOTALS</b>	<u>\$ 879,094</u>	<u>\$ 4,222,679</u>	<u>\$ 1,463,695</u>	<u>\$ 2,426,727</u>

Clubhouse House Services	Residential Services	Prevention Services	Group Homes	Totals
\$ -	\$ -	\$ 1,045	\$ -	\$ 2,231,771
-	-	440	-	1,259,791
-	1,368	-	14,126	61,319
-	1,368	1,485	14,126	3,552,881
2,085	6,192,802	543,171	-	9,400,570
6,087	774,709	58,170	216,857	3,088,651
-	-	68	-	47,375
-	43	-	3,212	6,857
-	5,514	-	78,143	111,357
-	18,873	-	316,177	373,650
-	658	-	-	4,286
-	171	288	8,277	644,509
8,172	6,992,770	601,697	622,666	13,677,255
-	18,954	117	48,910	72,324
8,172	7,013,092	603,299	685,702	17,302,460
-	-	-	29,258	29,258
<u>\$ 8,172</u>	<u>\$ 7,013,092</u>	<u>\$ 603,299</u>	<u>\$ 714,960</u>	<u>\$ 17,331,718</u>



**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND  
 OTHER POPULATIONS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Hispanic Conference	Ticket to Work	Collaborative Body
<b>Operating expenses:</b>			
Supplies	\$ 1,400	\$ 92	\$ 320
Services and charges:			
Contracted services	-	-	33,898
Allocated costs	-	38	304
Other	5,378	528	-
Total services and charges	5,378	566	34,202
<b>TOTALS</b>	<b>\$ 6,778</b>	<b>\$ 658</b>	<b>\$ 34,522</b>

Substance Abuse	Totals
\$ -	\$ 1,812
1,019,343	1,053,241
10,870	11,212
-	5,906
1,030,213	1,070,359
\$ 1,030,213	\$ 1,072,171

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND**  
**UNALLOCATED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Board Administrative</u>	<u>Benefit Cost Pool</u>	<u>Management Information Services</u>
<b>Operating expenses:</b>			
Salaries and wages	\$ 970,873	\$ -	\$ 236,594
Employee benefits	556,159	4,267,606	106,650
Supplies	<u>50,109</u>	<u>-</u>	<u>115,193</u>
Sub total	<u>1,577,141</u>	<u>4,267,606</u>	<u>458,437</u>
Services and charges:			
Contracted services	151,072	-	458,823
Allocated costs	405,666	-	5,530
Insurance	17,569	-	3,110
Utilities	5,991	-	1,163
Repairs and maintenance	20,917	-	134,772
Other	<u>175,966</u>	<u>-</u>	<u>11,794</u>
Total services and charges	777,181	-	615,192
Depreciation	<u>11,799</u>	<u>-</u>	<u>203,447</u>
<b>TOTALS</b>	2,366,121	4,267,606	1,277,076
Allocated costs	<u>(2,366,121)</u>	<u>(4,267,606)</u>	<u>(1,277,076)</u>
<b>UNALLOCATED COSTS</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

(Continued)

<u>Motor Pool</u>	<u>Recipient Rights</u>	<u>Towerline Building</u>	<u>Transportation</u>
\$ 1,584	\$ 171,493	\$ 71,561	\$ 241,262
-	77,155	37,851	150,082
<u>2,066</u>	<u>22,203</u>	<u>34,879</u>	<u>50,175</u>
<u>3,650</u>	<u>270,851</u>	<u>144,291</u>	<u>441,519</u>
-	15,513	22,925	-
-	71,132	21,296	20,492
5,583	2,661	1,826	31,409
-	1,634	39,411	125
1,955	13	49,267	45,965
<u>-</u>	<u>86,735</u>	<u>114,791</u>	<u>2,746</u>
7,538	177,688	249,516	100,737
<u>-</u>	<u>1,296</u>	<u>2,839</u>	<u>45,044</u>
11,188	449,835	396,646	587,300
<u>(11,188)</u>	<u>(449,835)</u>	<u>(396,646)</u>	<u>(587,300)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND  
 UNALLOCATED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Quality</u>	<u>Network Services</u>	<u>Network Training Services</u>	<u>DHS Outstation</u>
<b>Operating expenses:</b>				
Salaries and wages	\$ 445,268	\$ 290,344	\$ 51,230	\$ -
Employee benefits	235,117	130,624	29,653	-
Supplies	<u>5,148</u>	<u>9,384</u>	<u>140</u>	<u>157</u>
Sub total	<u>685,533</u>	<u>430,352</u>	<u>81,023</u>	<u>157</u>
Services and charges:				
Contracted services	12,679	132,510	9,503	38,585
Allocated costs	113,554	63,424	43,159	-
Insurance	4,978	3,267	668	-
Utilities	1,337	261	-	-
Repairs and maintenance	874	11	400	-
Other	<u>13,751</u>	<u>8,734</u>	<u>9,714</u>	<u>-</u>
Total services and charges	147,173	208,207	63,444	38,585
Depreciation	<u>216</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTALS</b>	832,922	638,559	144,467	38,742
Allocated costs	<u>(832,922)</u>	<u>(638,559)</u>	<u>(144,467)</u>	<u>-</u>
<b>UNALLOCATED COSTS</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 38,742</u></u>

Hancock Building	Total
\$ 61,874	\$ 2,542,083
36,264	5,627,161
48,292	337,746
146,430	8,506,990
26,274	867,884
-	744,253
2,399	73,470
130,239	180,161
117,906	372,080
2,000	426,231
278,818	2,664,079
209,680	474,321
634,928	11,645,390
(634,928)	(11,606,648)
\$ -	\$ 38,742

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS**  
**SEPTEMBER 30, 2005**

	Retirement	Postemployment Benefits	Managed Care Risk Reserve	Total
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 1,858,172	\$ 1,858,172
Investments	-	6,124,596	-	6,124,596
Due from other funds	157,072	488,304	-	645,376
<b>Total assets</b>	157,072	6,612,900	1,858,172	8,628,144
<b>Liabilities</b>				
Due to other funds	-	-	365,173	365,173
<b>Net Assets</b>				
Restricted for retirement costs	157,072	-	-	157,072
Restricted for postemployment benefits	-	6,612,900	-	6,612,900
Restricted for Substance Abuse reserve	-	-	129,002	129,002
Restricted for Medicaid reserve	-	-	1,363,997	1,363,997
<b>Total net assets</b>	<u>\$ 157,072</u>	<u>\$ 6,612,900</u>	<u>\$ 1,492,999</u>	<u>\$ 8,262,971</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET ASSETS - INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Retirement</u>	<u>Postemployment Benefits</u>	<u>Managed Care Risk Reserve</u>	<u>Total</u>
<b>Operating revenues</b>				
Contributions:				
Authority	\$ -	\$ 973,005	\$ -	\$ 973,005
<b>Operating expenses</b>				
Insurance	-	221,893	-	221,893
<b>Operating income</b>	-	751,112	-	751,112
<b>Nonoperating revenues (expenses)</b>				
Transfers in	-	-	125,537	125,537
Transfers out	-	-	(365,173)	(365,173)
Interest	-	269,231	49,907	319,138
Net appreciation in fair value of investments	-	126,941	-	126,941
<b>Total nonoperating revenues (expenses)</b>	-	396,172	(189,729)	206,443
<b>Change in net assets</b>	-	1,147,284	(189,729)	957,555
Net assets, beginning of year	157,072	5,465,616	1,682,728	7,305,416
<b>Net assets, end of year</b>	<u>\$ 157,072</u>	<u>\$ 6,612,900</u>	<u>\$ 1,492,999</u>	<u>\$ 8,262,971</u>



**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Retirement	Postemployment Benefits	Managed Care Risk Reserve	Total
<b>Cash flows from operating activities:</b>				
Cash received from other funds	\$ -	\$ 548,911	\$ -	\$ 548,911
Cash payments to suppliers for goods and services	-	(221,893)	-	(221,893)
Net cash provided by operating activities	-	327,018	-	327,018
<b>Cash flows from non-capital financing activities:</b>				
Cash received from other funds	-	-	125,537	125,537
<b>Cash flows from investing activities</b>				
Interest received	-	269,231	49,907	319,138
Purchases of investments	-	(596,249)	-	(596,249)
Net cash provided (used) by investing activities	-	(327,018)	49,907	(277,111)
Net increase (decrease) in cash and cash equivalents	-	-	175,444	175,444
Cash and cash equivalents, beginning of year	-	-	1,682,728	1,682,728
<b>Cash and cash equivalents, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,858,172</b>	<b>\$ 1,858,172</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income	\$ -	\$ 751,112	\$ -	\$ 751,112
Adjustments to reconcile operating income to net cash provided by operating activities:				
Decrease in assets				
Due from other funds	-	(424,094)	-	(424,094)
<b>Net cash provided by operating activities</b>	<b>\$ -</b>	<b>\$ 327,018</b>	<b>\$ -</b>	<b>\$ 327,018</b>

## **INTERNAL CONTROL AND COMPLIANCE**



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

February 3, 2006

Members of the Board  
Saginaw County Community  
Mental Health Authority  
Saginaw, Michigan

We have audited the financial statements of the business-type activities, the major fund and the aggregate remaining fund information of the *Saginaw County Community Mental Health Authority*, as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated February 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Saginaw County Community Mental Health Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *Saginaw County Community Mental Health Authority's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Saginaw County Community Mental Health Authority Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

February 6, 2006

Saginaw County Community  
Mental Health Authority  
500 Hancock  
Saginaw, MI

In planning and performing our audit of the financial statements of the ***Saginaw County Community Mental Health Authority*** for the year ended September 30, 2005, we considered the Authority's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestion regarding this matter. (A separate report dated February 6, 2006, contains our report on the Authority's compliance and internal controls). This letter does not affect our report dated February 6, 2006, on the financial statements of the ***Saginaw County Community Mental Health Authority***.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various Authority personnel, and we will be pleased to discuss this comment in further detail at your convenience, or perform any additional studies of these matters, or to assist you in implementing the recommendation.

# **SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

## **COMMENTS AND RECOMMENDATIONS**

---

### **I. POSTEMPLOYMENT TRUST FUND (REPEAT COMMENT)**

Currently the Postemployment Benefits Internal Service fund investments are not being held in a legally established trust account. By not establishing a separate legal trust for these investments the use of these investments is not legally restricted for postemployment benefits.

The Governmental Accounting Standards Board has issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This statement requires employers to have an actuarial study to determine the required annual contributions. The effective date of Statement No. 45 for the Authority is for fiscal year ending September 30, 2008.

We recommend that the Authority contact a financial institution so that a trust can be established to maintain these investments and restrict their use. We also recommend that the Authority contact a company that can perform the actuarial report.